

A transformational approach to business environment reform

Business environment reform has long been a priority for donors. Although mainstream approaches have been known to deliver impressive results in the right conditions, concerns have been raised about the sustainability of these results. Gareth Davies examines the lessons from an innovative programme in Nigeria which aims to deliver sustainable, transformational change in the way business policies and regulations are formulated.¹

Mainstream approaches to business environment reform

Donors have long recognised the importance of improving the business environment in developing countries. There is a growing body of evidence that demonstrates the link between the business environment and growth and poverty reduction (for a survey see the World Development Report 2005). A weak business environment often impacts most on the poor, who cannot afford private provision of services such as power and security and suffer most from predatory behaviour by officials, weak property rights and contract enforcement, and lack of access to finance.

Mainstream approaches to Business Environment Reform (BER) include:

- Technical Assistance (TA) designed to tackle a specific business environment constraint, for example technical support to a finance ministry to draft a new tax policy;
- Direct support to Business Member Organisations (BMOs), for example in the form of challenge funds which disburse grants to BMOs on the basis of competitive submissions; and
- Donor-established Public Private Dialogue (PPD) platforms, which bring together public and private sector stakeholders to discuss business environment issues.

Mechanisms like TA and challenge funds have the advantage of being relatively straightforward to administer, and challenge funds in particular are seen as being an efficient means of disbursing funds. In the right conditions, these approaches can deliver short-term impact. For example, targeted donor support to the Economic Reform Team during Obasanjo's second presidential term in Nigeria (2003-2007) contributed to an array of reforms in the field of public financial management, public procurement, privatisation, and deregulation.

However, concerns have been raised about the sustainability and scale of the impact achieved by mainstream approaches. BMO challenge funds, for example, fail to address the underlying causes of underperformance by BMOs, and fail to improve the performance or behaviour of other key stakeholders and decision-makers involved in BER (such as government institutions). Donor-established PPD platforms often collapse once direct donor support has been withdrawn. Similarly, TA programmes if deployed in isolation often fail to build a strong constituency for reform which can sustain and scale-up the reform effort once the donor has exited.

Programmes that attempt to directly "fix" a particular business environment issue, such as an onerous tax compliance burden, fall into the trap of tackling symptoms rather than causes. Unless the processes that generate business environment policies, laws, and regulations are addressed,

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then constraints to investment and growth will continue to be generated as quickly as donors fix them.

Returning to the example of Nigeria, a report in 2007 noted the top-down nature of the 2003-2007 reform effort: “The reform experience in Nigeria is notable for the relative weakness of public participation, reform coalitions and vertical systems of accountability. All of these elements will need to be strengthened in order to sustain the reform process”². The report proved to be prophetic: in the years following publication the reform experience in Nigeria has been mixed, and some of the gains made during 2003-2007 have been reversed.

The drawback of narrow, donor-driven approaches to reform has been noted in other papers. For example, a paper by the Centre for the Future State (Institute of Development Studies), calls for “reassessing strategies for supporting civil society, with less focus on pursuing a specific policy or rights-based agenda, and more on what could stimulate a wide range of different groups to organise effective, ongoing collective action”. The Drivers of Change initiative at DFID, and the new DFID practice note on BER, also emphasise the need to understand and address underlying structural and institutional constraints within developing countries. In the context of BER, this body of work suggests that donors and practitioners need to move from a transactional approach to a transformational approach, from tackling the mere symptoms of a weak business environment to tackling the fundamental systemic constraints that hinder continuous and sustained reform on business environment issues.

A new approach to business environment reform

A DFID-funded programme in Nigeria, implemented by Adam Smith International and the Springfield Centre, is testing a new, innovative approach to business environment reform. ENABLE was originally conceived as a BMO challenge fund. However, in recognition of the disadvantages of transactional approaches ENABLE developed a new approach, borrowing extensively from the Making Markets Work for the Poor (M4P) framework. The ENABLE approach is based on four basic hypotheses:

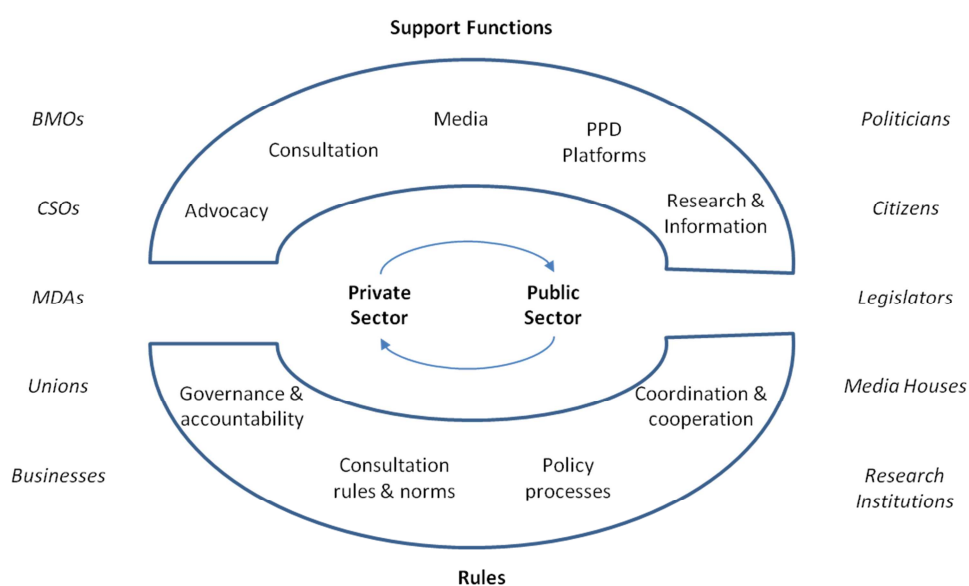
- 1) The business environment is generated by an underlying “BER system”;
- 2) A weak business environment is the result of a dysfunctional BER system;
- 3) The performance of the BER system depends upon the capacities of actors in the system, the incentives facing those actors, and the relationships between actors;
- 4) To create transformational change, programmes need to tackle the underlying, systemic constraints to reform – this means catalysing lasting changes in the capacity and behaviours of system actors.

Systems-thinking is at the heart of the approach. Business environment outcomes are seen as the result of a complex set of interactions between countless “actors”, including BMOs, government agencies, legislators, media houses, research institutions, individual businesses, politicians, citizens,

² Utomi, P, Duncan, A, Williams, G (2007); “Policy Practice Brief 3 - The political economy of reform: The case of Nigeria 2003-2007”, The Policy Practice

international organisations, unions, and CSOs. These interactions are governed by a host of formal and informal rules.

To make sense of this complex web of interactions, ENABLE has adapted the standard M4P framework for mapping commercial market systems. At the core of the BER system is an “exchange” between the public and private sector: the private sector demands reform and the government supplies reform. This core transaction is underpinned by a set of support functions – such as the media and information – and rules – such as rules on mandatory consultation. The presence or absence of such support functions and rules shapes the quantity and quality of the core transaction.



Using this framework, the poor business environment in countries like Nigeria can be seen as a consequence of underlying weaknesses in the BER system. At the core of the system there is a lack of voice and accountability: the private sector does not have the capacity or incentives to effectively engage with government; government does not have the capacity or incentives to engage the private sector. These weaknesses are co-determined and self-reinforcing: most BMOs are unwilling to invest to improve their advocacy capacity because they believe that government is unwilling to listen; most government institutions are unwilling to invest time and energy to consult with the private sector because they believe that BMOs are not credible and constructive interlocutors.

The dysfunctional relationship between the public and private sector is reinforced by weakness in the support functions and rules. Media does not proactively investigate issues facing businesses (particularly small and informal businesses) or stimulate debate on business environment issues; research institutions do not effectively support evidence-based advocacy and dialogue; PPD platforms tend to be talking shops for the political elite and big business; policy is made in an-hoc fashion, behind closed doors, limiting the opportunity for debate and analysis; and there are no formal or informal rules promoting regular, inclusive consultation.

To tackle these systemic constraints, ENABLE supports:

- BMOs to engage in effective **advocacy** on behalf of the private sector

- Government Ministries, Departments and Agencies (MDAs) to **dialogue** with the private sector more effectively
- Media houses to establish and sustain investigative **media** coverage of business environment issues, providing a platform for debate and creating pressure for reform
- Research institutions to improve the provision of **information and research** on business environment issues, leading to more substantive debate and more informed policy making
- The creation of substantive and inclusive **PPD platforms**, owned, run, and paid for by local actors

ENABLE aims to catalyse systemic, transformational change: the aim is to create a BER system that is able to deliver pro-poor business environment reform long after ENABLE has exited. Following the M4P approach, ENABLE acts as a facilitator – it builds the capacity of local actors but does not directly perform functions that should be performed by local actors themselves.

For example, rather than set-up a new PPD platform, ENABLE played the role of facilitator, helping interested local actors to establish their own platforms. At the pilot phase, ENABLE seeded ideas for PPD Platform formats to a variety of actors. The first organisation to express interest was Lagos Chamber of Commerce and Industry (LCCI), the oldest BMO in Nigeria. ENABLE helped LCCI to design a new platform called the Business Environment Roundtable. Capacity building, mentoring support, and limited cost-sharing were provided during the first three roundtables. The support was provided on a declining basis to ensure LCCI received the support needed without crowding out local ownership and learning-by-doing. ENABLE also provided sponsorship advice to ensure LCCI could attract the funding required to sustain the platform, and media relations support to ensure that the roundtables would generate widespread media coverage.

After the first three roundtables, LCCI has gone on to host three further roundtables without any direct support from ENABLE. LCCI also managed to attract sponsorship for the events: the roundtables are now self-financing. The roundtables have the full buy-in of senior management. LCCI has plans to host three roundtables per year, and is already innovating new platform formats, pointing to a high likelihood of sustainability. At the replication phase, ENABLE is supporting the spread of new PPD Platforms around the country – the Kaduna Chamber of Commerce and the Institute of Directors have already copied the format, and several others have expressed an interest.

Emerging results

Emerging results suggests the approach is working. After 3.5 years of implementation, ENABLE has improved the performance of a large number of system actors:

- 8 BMOs have introduced new advocacy practices
- 11 media houses have launched new or improved media products investigating business environment issues, plus 5 known cases of replication
- 6 MDAs have introduced new consultation practices
- 5 RIs have launched new or improved BE research products
- 5 PPD Platform have been launched, with 2 known cases of replication

Many of the practice changes promoted by ENABLE partners look set to be sustained. For example, many of the media products have been on-air for over 12 months, with no financial support from ENABLE, and several have attracted dedicated sponsors.

At the purpose-level and goal-level, ENABLE partners have held 38 dialogues, leading to 8 cases of business environment reform on issues ranging from multiple-taxation to food safety policy to fertiliser policy. Many of these reforms were driven by multiple partners converging on a particular issue, illustrating the power of a systemic approach. For example, the reforms to fertiliser policy were driven by Daily Trust, a newspaper which ran a series of articles highlighting the deficiencies of the current subsidy arrangements, and FEPSAN, a BMO which actively campaigned for reform of the system.

High-level impact has shown a clear acceleration in the last year as partnerships mature, practice change is sustained, partners crowd-in around BE issues, and replication begins to take-off. ENABLE has now delivered an improved business environment for over 700,000 micro-enterprises (46% female owned), which will increase to over 5.2 million micro-enterprises when reforms already passed are implemented.

ENABLE is committed to further developing this evidence base, through a series of case studies and independent impact assessments. The hope is that learning from ENABLE will help to shape the next generation of business environment reform programmes around the world.